

Additional Views on H.R. 5072, "FHA Reform Act of 2010"

As the private housing market has collapsed, the FHA has drastically increased its volume of total insured mortgages and has fallen below its congressionally mandated 2 percent capital reserve ratio to an all time low of 0.5 percent. Many economists believe low down payments, coupled with falling home prices, have proved to be one of the biggest predictors of defaults. As a result, the Housing and Economic Recovery Act of 2008 (P.L. 110-289) included language that increased the required FHA down payment from 3 percent to 3.5 percent.

H.R. 5072, the FHA Reform Act, with the changes my Republican colleagues made to the bill prior to its introduction, goes a long way to improving the financial condition of the Federal Housing Administration (FHA) single-family mortgage insurance program. However, given FHA's rising default rates and weakened reserve ratio, Congress needs to do more to protect the taxpayer from yet another bailout. For this reason, I offered several amendments during Committee consideration of H.R. 5072 aimed at increasing the downpayment requirement for FHA and promoting greater accountability on the part of the FHA borrowers and lenders.

Higher down payment requirements will protect the FHA's Mutual Mortgage Insurance Fund (MMIF) because mortgages with lower loan-to-value ratios are more likely to perform over time. Better performing loans mean fewer claims for the FHA fund to pay. The five Garret amendments are explained below:

1. Raise the FHA down payment requirement from 3.5 percent to 5 percent and prohibit closing costs from being rolled in to the loan;
2. Require borrowers with credit score below 580 to have a 10 percent down payment (HUD has already announced it will require 10 percent down for all borrowers with credit scores below 580). In addition, borrowers with credit score between 580 and 620 would be required to have a 5% down payment;
3. Raise the FHA down payment requirement from 3.5% to 5% whenever FHA's Capital Reserve Ratio drops below the statutorily required 2%--(There is a 6-month delay after enactment of the legislation to provide more time for the housing market to improve);
4. Prohibit the Up-Front Premium from being financed into the loan amount. This would ensure that the borrower's Loan to Value (LTV) ratio will be a true 96.5% as intended by Congress when it changed the down payment requirement from 3 percent to 3.5 percent as part of HERA;
5. Reduce the 100 percent government guarantee of FHA loans to 95 percent and require FHA-approved lenders to retain 5 percent of the risk of each FHA loans they underwrite.

Homeownership is a noble goal and we must continue to look for ways to stabilize our housing market after a recent financial collapse. However, the benefits with promoting homeownership using government subsidies must be balanced against the potential risk of insuring less creditworthy borrowers and exposing the American taxpayer to that risk. The recent housing bust has taught us the importance of proper underwriting and ensuring potential homebuyers have the appropriate amount of personal funds invested in the transaction.

As we wait for the private housing market to improve, it is essential that Congress takes steps to ensure that the FHA

program remains viable and available to potential homeowners. The provisions in H.R. 5072 represent an important step toward addressing the shortfall in the FHA's insurance fund. However, we should do more to protect the taxpayer from having to suffer the consequences of bailing out another government housing program similar to Fannie Mae and Freddie Mac. The Garrett amendments simply ask lenders and borrowers to have more 'skin in the game.' More skin in the game requires greater accountability. It's the very least we can do to protect the taxpayer.

Scott Garrett.

Ed Royce.

Randy Neugebauer.

Spencer Bachus.

Jeb Hensarling.